

Message Text

LIMITED OFFICIAL USE

PAGE 01 JAKART 07790 140830Z

ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-07

NSC-05 EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02

OPIC-03 LAB-04 SIL-01 L-03 H-01 DODE-00 PA-01

PRS-01 PM-04 INT-05 /105 W

-----140838Z 059662 /20

R 140500Z JUN 77

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 1731

INFO AMEMBASSY BANGKOK

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMEMBASSY MOSCOW

AMEMBASSY SINGAPORE

AMCONSUL MEDAN

AMCONSUL SURABAYA

CINCPAC HONOLULU HI

LIMITED OFFICIAL USE JAKARTA 07790

CINCPAC FOR POLAD

E.O. 11652: N/A

TAGS: EAID, EMIN, ID, UR

SUBJECT: SOVIETS OUT IN INDO ALUMINA PROJECT?

REFS: (A) JAKARTA 6628, (B) JAKARTA 12893, (C) MOSCOW 4428

1. SUMMARY: GOI HAS BEEN DISCUSSING SOVIET FINANCIAL AND TECHNICAL ASSISTANCE FOR AN ALUMINA SMELTER ON BINTAN ISLAND SINCE EARLY 1976. BECAUSE OF SOVIET APPARENT INABILITY TO MEET APRIL '81 TARGET DATE, AND BECAUSE SOVIETS HAD NOT BEEN FORTHCOMING IN NEGOTIATIONS, INDONESIAN SIDE HAS APPROACHED KAISER ENGINEERS, WHO DID AN EARLIER STUDY OF PROJECT,
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 JAKART 07790 140830Z

TO UPDATE ITS STUDY. END SUMMARY.

2. IN REF A WE REPORTED THAT THE GOI HAD ANNOUNCED PLANS TO BUILD A 600,000 TON/YEAR ALUMINA SMELTER ON BINTAN ISLAND, NEAR SINGAPORE, USING SOVIET FINANCIAL AND TECHNICAL AID. FOLLOWING ANNOUNCEMENT THERE HAVE BEEN PROLONGED NEGOTIATIONS WHICH, GIVEN MUTUAL MISTRUST AND SUSPICION, WERE APPARENTLY

DIFFICULT AND TORTUOUS AND, IN THE END, UNSUCCESSFUL. THERE HAS BEEN NO ANNOUNCEMENT THAT THE GOI HAS GIVEN UP THE SOVIET OPTION, BUT THE STATE-OWNED MINING FIRM, PT ANEKA TAMBANG, WHICH IS MOST INVOLVED IN THE PROJECT HAS AGAIN APPROACHED KAISER ENGINEERING CONCERNING PROJECT. KAISER DID ORIGINAL FEASIBILITY STUDY FOR THE PROJECT IN 1975.

3. THE ALUMINA SMELTER IS MEANT TO SUPPLY ALUMINA TO THE ASAHAN ALUMINUM SMELTER, PART OF AN \$800 MILLION HYDROELECTRIC PROJECT BEING BUILT WITH JAPANESE AID BY A CONSORTIUM OF JAPANESE COMPANIES. THE ASAHAN PROJECT IS DUE TO COMPLETE ITS FIRST STAGE IN MID-1981 AND AT FULL PRODUCTION SOMETIME IN 1984, WILL REQUIRE 450,000 TONS OF ALUMINA/YEAR AS TO ITS BASIC RAW MATERIAL. THE ASAHAN PROJECT HAS ALWAYS BEEN CONSIDERED MARGINAL FROM A PROFITABILITY STANDPOINT, ITS ECONOMIC JUSTIFICATION BEING FOUND IN THE EXPECTATION THAT IT WOULD STIMULATE ECONOMIC DEVELOPMENT THROUGHOUT THE AREA THROUGH FORWARD AND BACKWARD LINKAGES. ALUMINA SMELTER IS OBVIOUS BACKWARD LINKAGE, AND FOR THIS REASON GOI IS ANXIOUS TO ASSURE A DOMESTIC SUPPLY OF ALUMINA BY APRIL 1981. ACCORDING TO ANEKA TAMBANG SOURCE WHO HAS PARTICIPATED IN NEGOTIATION WITH THE SOVIET UNION, SOVIETS WERE MOVING SO SLOWLY IN NEGOTIATIONS THAT GOI SIDE CONCLUDED THERE WAS WERE MOVING SO SLOWLY IN NEGOTIATIONS THAT GOI SIDE CONCLUDED

THERE WAS NO HOPE OF HAVING BINTAN ISLAND PROJECT ON-STREAM BY TARGET DATE. ALSO SOVIET AID OFFER REPORTEDLY ONLY INCLUDED CREDITS FOR EQUIPMENT, AND DID NOT COVER FOREIGN CURRENCY EXPENSES IN CONSTRUCTION. ANEKA TAMBANG OFFICIAL COMMENTED THAT THERE WAS LITTLE "GIVE" IN SOVIET NEGOTIATING POSITION. LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 JAKART 07790 140830Z

4. GOI HAS NOT ANNOUNCED THAT IT IS ENDING DISCUSSIONS WITH USSR ABOUT BINTAN, AND IT IS HIGHLY DOUBTFUL THAT IT EVER WILL; HOWEVER, GOI HAS APPROACHED US FIRM KAISER ENGINEERS TO DO AN UPDATE OF FEASIBILITY STUDY OF PROJECT KAISER ORIGINALLY PREPARED IN 1975. ANEKA TAMBANG PROVIDED EMBOFF WITH SUMMARY OF 1977 KAISER STUDY, WHICH WILL BE FURNISHED TO ACTION ADDRESSEES. STUDY SAYS THAT PROJECT WILL UTILIZE A 27 MILLION METRIC TON RESERVE OF HIGH SILICA TRIHYDRATE BAUXITE, AND THAT THIS DEPOSIT IS SUFFICIENT TO SUPPORT 600,000 TON/YEAR PRODUCTION OF ALUMINA FOR SIXTEEN YEARS. ADDITIONAL DEPOSITS IN AREA PROVIDE ADDITIONAL TWENTY YEARS OF RESERVE. THE ESTIMATED CAPITAL COST OF PROJECT IS APPROXIMATELY \$400 MILLION. MARKETING OF THE BINTAN ALUMINA WOULD INVOLVE SALES OF 450,000 TON/YEAR TO THE ASAHAN CONSORTIUM, WITH ADDITIONAL 150,000 TONS TO BE SOLD FOR EXPORT, POSSIBLY IN THE MIDDLE EAST.

5. FINANCING FOR BINTAN PROJECT STILL REMAINS NEBULOUS; KAISER ESTIMATES \$336,332,000 FOREIGN CURRENCY REQUIREMENTS WITH

\$261,872,000 FROM SUPPLIER CREDITS. ACCORDING TO THE PROJECT
SUMMARY, THE INTERNATL RATE OF RETURN COMPUTED ON A DISCOUNTED
BASIS IS 18.34 PERCENT; THE RETURN ON EQUITY IS 20.05 PERCENT.
NEWSOM

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CONSTRUCTION, ALUMINUM, PROGRAMS (PROJECTS), INDUSTRIAL PLANTS
Control Number: n/a
Copy: SINGLE
Sent Date: 14-Jun-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977JAKARTA07790
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770211-0787
Format: TEL
From: JAKARTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770660/aaaacajs.tel
Line Count: 120
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 31a2c97d-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 JAKARTA 6628, 77 JAKARTA 12893, 77 MOSCOW 4428
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 18-Jan-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2165119
Secure: OPEN
Status: NATIVE
Subject: SOVIETS OUT IN INDO ALUMINA PROJECT?
TAGS: EAID, EMIN, ID, UR
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/31a2c97d-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009